CERTIFIED PUBLIC ACCOUNTANT

TECHNICAL LEVEL EXAMINATION

AT2.5 ADVANCED TAXATION

MARKING GUIDE AND MODEL ANSWER

DATE: MONDAY 25, MAY 2026

SECTION A

Question No	Correct Answer
1	C
2	B
3	C
4	C
5	C
6	A
7	C
8	D
9	C
10	C
11	B
12	A
13	D
14	A
15	C

QUESTION ONE

Key	The correct answer is C	
Rationale	A	Option A: (i) and (iv): This option is incorrect. While dividends paid to a non-resident by a Rwandan resident company (i) are considered taxable under the source rule, employment income earned abroad by a non-resident working temporarily for a Rwandan company (iv) is not. The source principle applies to all types of income generated within the country, not exclusively to passive income.
	B	Option B: (iii) and (ii) only: This option is incorrect. Rental income from property located outside Rwanda, earned by a Rwandan resident (ii), falls under the residence principle, where a country taxes its residents on their worldwide income. Business profits earned by a Rwandan resident in a foreign country (iii) are also not taxable under the source rule, as the source principle focuses on income generated within the country's borders
	C	Option C: (i) only: This option is correct. Under the source principle, taxation is determined based on the location where the income is generated or earned. Dividends paid to a non-resident by a Rwandan resident company (i) are considered taxable because the income originates within Rwanda. The focus is on the source of the income, not the taxpayer's residence.
	D	Option D: (i) and (iii): This option is incorrect. While dividends paid to a non-resident by a Rwandan resident company (i) are taxable under the source rule, business profits earned by a Rwandan resident in a foreign

		country (iii) are not. The source principle only taxes income generated within the country's borders, regardless of the taxpayer's residence.

QUESTION TWO

Key (answer)	**The correct Answer is B**	
Rationale	A	This option is not correct because it considers the accounting Net Book Value of FRW190 million instead of the Tax Written Down Value **Taxable gain on machinery = Sale Price – Tax Written Down Value (TWDV)** = FRW250 million - (FRW400 million – FRW190 million) = FRW250 million - FRW210 million = **FRW40 million** Taxable gain on inventory = Sale Price - Book Value = FRW60 million - FRW50 million = **FRW10 million** Total taxable gain = FRW40 million + FRW10 million = **FRW50 million**
	B	This option correctly calculates the taxable gain on both the machinery and the inventory. **Taxable gain on machinery = Sale Price - Written Down Value (WDV)** = FRW250 million - (FRW400 million - FRW200 million) = FRW250 million - FRW200 million = **FRW50 million** Taxable gain on inventory = Sale Price - Book Value = FRW60 million - FRW50 million = **FRW10 million** Total taxable gain = FRW50 million + FRW10 million = **FRW60 million**
	C	See above (250m – 400m) = loss of (150m) + gain of 10m = FRW140m
	D	This option considers only the gain from inventory and ignores machinery entirely. Taxable gain from inventory = FRW60 million - FRW50 million= FRW10 million This option disregards the significant taxable gain of FRW50 million from machinery.

QUESTION THREE

Key (answer)	**The correct answer is C**	
Rationale	A	A is incorrect, because it considered the apportionment, while the purchase of taxable supplies should not be apportioned and consider the figure as VAT payable, and has not even consider the out put VAT to get the balance to be paid to the Tax administration.
	B	B is incorrect, because it considered the apportionment, while the purchase of taxable supplies should not be apportioned and consider the figure as VAT refundable, and has not even consider the output VAT to get the balance to be paid to the Tax administration.

	C	**Calculate Output VAT** - **Domestic taxable goods**: Output VAT=50,000,000×18%=FRW9,000,000 - **Exports**: Exports are zero-rated, so VAT = FRW0. - **Medical supplies are exempt from VAT:** Exempt supplies do not generate output VAT, so VAT = FRW0 Total Output VAT = FRW9,000,000. **Calculate Input VAT** - **Input VAT on purchases for taxable supplies** Input VAT=30,000,000×18%=FRW5,400,000. - VAT on goods purchased from a customs bonded warehouse is only claimable when the goods exit the warehouse and duties/taxes are paid. Since the goods exited in July 2024, this input VAT cannot be claimed in June 2024. Total Input VAT Claimable (before apportionment) = FRW5,400,000. Hence the VAT Payable = FRW 9,000,000-5,400,000= FRW 3,600,000.
	D	Incorrect, this does not take into consideration the apportionment of input VAT.

QUESTION FOUR

Key (answer)	**The correct answer is C**	
Rationale	A	Correct: The incentives are designed to make Rwanda more competitive and attractive for foreign direct investment, especially in the financial sector.
	B	Correct: The OECD Pillar II, which is part of the global tax reform initiative known as BEPS 2.0, proposes a minimum effective tax rate of 15% for multinational enterprises to ensure that they pay a fair share of tax regardless of where they operate. This could limit the benefits of the KIFC incentives for some financial service providers.
	C	Incorrect: The KIFC incentives require financial service providers to have a physical office in Rwanda, as well as meet other criteria such as minimum capital, staff, and activity levels. This is to ensure that the incentives are not abused by shell companies or passive entities that do not contribute to the Rwandan economy.
	D	Correct: The KIFC incentives also aim to foster the development of local talent and skills in the financial sector, by requiring financial service providers to employ a certain percentage of Rwandan professionals and to provide training and mentoring programs.

QUESTION FIVE

Key (answer)	The correct answer is C	
Rationale	A	Option A is incorrect because: i) Tuition fees paid by the employer for an employee's child attending a private school are considered taxable benefits. These are not exempt from tax as they are seen as a personal benefit to the employee. iv) Cash allowances for purchasing educational materials for employees' dependents are generally taxable.
	B	Option B is incorrect because: iii) Training programmes that are unrelated to employees' job are considered taxable. These trainings are seen as a personal benefit and do not qualify for tax exemption.
	C	Option C is correct because: ii) Employer-provided professional training for employees related to their job is exempt from tax. This type of benefit is considered a business expense and is directly related to the employee's professional development, thus qualifying for tax exemption.
	D	Option D is incorrect because: i) As previously mentioned, tuition fees for an employee's child are taxable. ii) While employer-provided professional training is exempt, the inclusion of the taxable tuition fees makes this option incorrect.

QUESTION SIX

Key (answer)	The correct answer is A	
Rationale	A	Data bundles, mobile airtime, and mobile money services are all liable for excise tax in Rwanda
	B	This is incorrect because it lacks mobile airtime services
	C	This is not correct because it lacks data bundles and mobile money services
	D	This is incorrect because bank transfer charges are not subject to excise tax in Rwanda.

QUESTION SEVEN

Key (answer)	The correct answer is C	
Rationale	A	A is incorrect: It falsely claims a reduction in GGR tax to 13%, when in fact it was increased from 13% to 40%. It also incorrectly states that the withholding tax remained at 15%.
	B	B is incorrect: The 1.5% tax applies to digital service providers with significant presence in Rwanda, not to gambling winnings. Also, there is no earmarked 25% of profits for responsible gambling programs.
	C	GGR tax increased to 40%: This reflects a significant shift from the previous 13%, aimed at boosting state revenue. Withholding tax on winnings raised from 15% to 25%: This aligns with the government's goal of capturing more tax from individual gains. Gambling activities are now exempt from CIT.

	D	D is incorrect: There is no flat 25% corporate income tax replacing gambling taxes. The reforms have exempted companies in the gaming business from corporate income tax.

QUESTION EIGHT

Key (answer)	**The correct answer D**	
Rationale	A	This answer is incorrect because it ignores the loss carryforward rules and does not deduct any losses from the 2025 income.
	B	This answer is incorrect because it only deducts the 2021 loss of FRW30,000,000 from the 2025 income which would have been utilized by the 2022 taxable income and does not take into account the 2024 loss of FRW20,000,000, which is the only eligible loss for carryforward.
	C	This answer is incorrect because it does not follow the order of the losses as required by the law. It deducts the 2024 loss of FRW20,000,000 first, then the 2021 loss of FRW30,000,000, leaving FRW 0 as taxable income. However, the law states that the losses must be used in the order they were incurred, starting from the oldest one.
	D	The correct answer is FRW30,000,000 and this is because: • the 2019 loss of FRW50,000,000 cannot be carried forward to 2025, as it exceeds the Five-year limit. • the 2021 loss of FRW30,000,000 will be fully utilized against the 2022 taxable income of FRW40,000,000. • therefore, the only losses that can be deducted from the 2025 taxable income of FRW50,000,000 is the 2024 loss of FRW20,000,000. Leaving us with taxable income of FRW30,000,000

QUESTION NINE

Key (answer)	**The correct answer C**	
Rationale	A	This is incorrect because it does not account for the arm's length adjustment of the sales to Uwera Limited. The price of FRW 4,000 per kg is lower than the market price of FRW 5,000 per kg and therefore understates the taxable base for excise duty purposes.
	B	This is incorrect because it only applies the consumption tax rate to the sales to unrelated parties and ignores the sales to Uwera Limited. The sales to Uwera Limited are also subject to excise duty after adjusting the price to the arm's length level.
	C	This is the correct answer. To calculate the excise duty liability, Iwacu Food Limited has to increase the price of its sales to Uwera Limited from FRW 4,000 per kg to FRW 5,000 per kg, which is the same price as the sales to unrelated parties. This ensures that the transactions between related parties are taxed on the same basis as the transactions between unrelated parties, in accordance with the arm's length principle. The total sales subject to excise duty are therefore FRW 1,500,000 =((100+100+100)*5,000) and the excise duty liability is FRW 150,000 (10% of 1,500,000).

	D	This is incorrect because it overstates the excise duty liability by applying the consumption tax rate to the unadjusted sales to Uwera Limited. The price of FRW 4,000 per kg is not the arm's length price and therefore inflates the taxable base for excise duty purposes.

QUESTION 10

Key (answer)	**The correct Answer is C**	
Rationale	A	See below
	B	See below
	C	Students must: 1. **Identify the correct CET rates**: • Raw materials → 0% • Intermediate goods → 10% • Finished goods → 25% • Strategic goods → 35% 2. **Apply reclassification**: **a.** 80% of intermediate goods remain at 10% → FRW 4,000,000,000 × 10% = **FRW 400,000,000** **b.** 20% reclassified as finished goods → FRW 1,000,000,000 × 25% = **FRW 250,000,000** **2. Finished goods (original)**: FRW 3,000,000,000 × 25% = **FRW 750,000,000** 3. **Total customs duty** = FRW 400,000,000 + FRW 250,000,000 + FRW 750,000,000 = **FRW 1,400,000,000**
	D	See above

QUESTION 11

Key (answer)	**The correct answer is B**	
Rationale	A	This option is incorrect because the Rwandan company should not charge output VAT on exports, which are zero-rated in Rwanda.
	B	This option is correct because the Rwandan company applies the zero rate to its exports and claims a refund of the input VAT it paid on its local purchases from the Rwanda Revenue Authority (RRA).
	C	This option is incorrect because the Rwandan company is entitled to a refund of the input VAT it paid on its local purchases, as it made zero-rated exports.
	D	This option is incorrect because not all exports are exempt, The refund of the input VAT to the Rwandan company is correct, as it made zero-rated exports.

QUESTION 12

Key (answer)	**The correct Answer is A**	
Rationale	A	This answer is correct because it calculates the income tax in both countries according to the DTT and the foreign tax credit rules. The income tax in Country A (the source country) is FRW10,000,000, which is 10% of the

		income as per the DTT. The income tax in Rwanda (the residence country) is FRW30,000,000, which is 30% of the income as per the domestic law. However, the resident can claim a foreign tax credit of FRW10,000,000, which is the lower of the actual tax paid in Country A or the DTT rate applied to the income. Therefore, the net tax payable in Rwanda is FRW20,000,000. The total tax paid in both countries is FRW30,000,000, which is the sum of the withholding tax in Country A and the net tax in Rwanda
	B	See above
	C	See above
	D	See above

QUESTION 13

Key (answer)	**The correct Answer is D**	
Rationale	A	See below
	B	See below
	C	See below
	D	This is correct, because the gross amount of allowances (before withholding tax) is FRW113,928,000 x 100/85 = FRW134,032,941, and the net amount of allowances (after withholding tax) is FRW134,032,941 x 70/100 = FRW93,823,058. The gross amount of expense that the company should have deducted is FRW134,032,941.

QUESTION 14

Key (answer)	**The correct answer is A**	
Rationale	A	Incorrect: (i) is in line with Article 25 of the Income Tax Law, which provides that employers' contributions to the RSSB for their employees are exempt from employment income tax for the employees. (ii) is correct employees' contributions remitted by employers are the employer's deductible expense; they are the employee's funds passed through the employer.
	B	Incorrect: (iii) is not. Employers' contributions to the RSSB for their employees are exempt from employment income tax for the employees, not taxable as stated in (iii).
	C	Incorrect: (iii) is incorrect, as explained in B. (iv) is correct, as Employees' contributions belong to the employee, not the employer. The employer merely acts as a withholding agent deducting the contributions from the employee's gross salary and remitting them to RSSB. Since these are the employee's own funds (never the employer's expense), they cannot be deducted by the employer as a business expense in computing the employer's corporate income tax
	D	Incorrect because (iv) is incorrect

QUESTION 15

Key (answer)	The correct Answer is C	
Rationale	A	Incorrect: The TP ministerial order does not mandate the tested party to be the parent entity.
	B	Incorrect: Only the most appropriate method is required, this does not necessarily imply that other methods are not applicable at all.
	C	Correct: Article 15 of the Order requires that when a foreign entity is selected as the tested party, sufficient information must be available to reliably apply the method and enable review by the tax administration.
	D	Incorrect: There is no requirement for there to be a DTA in selection of a tested party.

SECTION B

QUESTION 16

(a)	**Treatment of the 2023 Loss** Under Rwanda's Income Tax Law, a loss incurred in the tax period in which a long-term contract is completed can be carried back and offset against previously taxed profits from the same contract. *(1 mark)* The total previously taxed profits are: • 2021 profit = FRW100 million • 2022 profit = FRW150 million • Total = FRW250 million The 2023 loss of FRW250 million can be fully offset against these prior profits: • Offset against 2021 profit: FRW100 million (remaining loss = RWF 250 million - FRW100 million = FRW150 million). *(1 mark)* • Offset against 2022 profit: FRW150 million (remaining loss = FRW150 million - FRW150 million = FRW0). *(1 mark)* Thus, the entire 2023 loss is absorbed, and no taxable income remains for 2021 and 2022. **Impact on Tax Obligations:** • 2021: The FRW100 million profit is offset, and the taxable income becomes FRW0. Any taxes already paid for 2021 can be refunded or adjusted as a credit. *(1 mark)* • 2022: The FRW150 million profit is offset, and the taxable income becomes FRW0. Similarly, taxes already paid for 2022 can be refunded or adjusted. *(1 mark)* • 2023: No taxable income remains as the loss has been fully utilized under the carry back provision. *(1 mark)*	6 Marks

(b)	Under Article 10 of Law No. 027/2022, income from long-term contracts (defined as contracts exceeding 12 months) must be recognized using the percentage-of-completion method. This means ABC Ltd. must allocate revenue and expenses proportionally based on the work completed in each tax year. The taxable income for 2021 and 2022 should reflect the actual progress of the road construction, supported by reliable cost and performance data. This ensures that tax liability aligns with economic activity rather than cash flow or contract completion. (2 marks)	2 Marks (maximum)
(c)	Under Rwanda's income tax framework, penalties paid by a taxpayer are generally **non-deductible** unless they are **contractual and compensatory** rather than punitive. ABC Ltd. must assess whether the penalties were incurred as part of normal business operations (e.g., liquidated damages under the contract) or imposed by law or regulation. If the penalties are compensatory and directly related to the income earning, they may be deductible. Additionally, if the contract was modified (e.g., scope, pricing, or timeline), ABC Ltd. must adjust its revenue recognition and tax reporting accordingly, ensuring that any changes are reflected in the percentage-of-completion calculations and supported by documentation *(2 marks)*	2 Marks

QUESTION 17

Marking scheme and model answers

OUTPUT VAT

The table below classifies each output transaction and calculates output VAT where applicable. Standard-rated supplies attract VAT at 18%; zero-rated supplies carry a 0% rate (input VAT still recoverable); exempt supplies fall outside the VAT charge (input VAT not recoverable).

S/N	Transaction	Amount (FRW)	VAT Treatment	Rate	Output VAT (FRW)	Marks
1	Export of processed coffee (FOB Kigali) - Netherlands	62,000,000	Zero-rated	0%	-	0.5
2	Export of processed tea - buyer in Rwandan Free Zone	14,500,000	Zero-rated	0%	-	0.5

S/N	Transaction	Amount (FRW)	VAT Treatment	Rate	Output VAT (FRW)	Marks
3	Local sale of human medicines	41,000,000	Exempt	-	-	-
4	Local sale of medical diagnostic equipment	28,000,000	Exempt	-	-	-
5	Commercial office space rental (incl. advance rent Nov 2024)	19,500,000	Standard-rated	18%	3,510,000	0.5
6	School fees from enrolled students	24,000,000	Exempt	-	-	0.5
7	IT consulting services - local Rwandan bank	16,200,000	Standard-rated	18%	2,916,000	0.5
8	Software development - Dubai firm (non-resident, no PE)	23,580,000	Zero-rated	0%	-	0.5
9	Hotel room revenue (accommodation)	31,000,000	Standard-rated	18%	5,580,000	0.5
10	Conference halls hire fees	8,700,000	Standard-rated	18%	1,566,000	0.5
11	Free coffee samples - deemed supply (market value)	3,600,000	Standard-rated	18%	648,000	0.5
12	Medicines returned - credit note (damaged, same period)	(5,000,000)	Exempt (no VAT adjustment)	-	-	0.5
	TOTAL OUTPUT VAT				**14,220,000**	**5**

INPUT VAT

Input VAT is recoverable where it relates to taxable (standard-rated or zero-rated) supplies. Where inputs are mixed, VAT is apportioned. Blocked categories include entertainment, private motor cars, and inputs attributable exclusively to exempt supplies.

S/N	Transaction	Gross Amt (FRW)	VAT @ 18% (FRW)	Rule / Basis	Recoverable Input VAT (FRW)	Marks
13	Import of pharma raw materials (CIF + duties)	30,000,000	5,400,000	Blocked - used in exempt supply (human medicines)	-	0.5
14	Import of medical diagnostic equipment (CIF + duties)	20,000,000	3,600,000	Blocked - used in exempt supply (medical equip.)	-	0.5
15	Coffee & tea processing machinery (100% export use)	22,000,000	3,960,000	Fully recoverable - directly attributable to zero-rated exports	3,960,000	0.5
16	12-seater minibus - hotel guest transport	11,000,000	1,980,000	Fully recoverable - directly attributable to taxable hotel supply	1,980,000	0.5
17	Laptops for IT consulting staff (100% taxable use)	6,500,000	1,170,000	Fully recoverable - 100% taxable IT services	1,170,000	0.5
18	Staff accommodation - school teachers (exempt sector)	3,200,000	576,000	Blocked - linked to exempt education activity	-	0.5

S/N	Transaction	Gross Amt (FRW)	VAT @ 18% (FRW)	Rule / Basis	Recoverable Input VAT (FRW)	Marks
19	Cocktail reception - directors / prospective investors	4,800,000	864,000	Fully recoverable as it is related to business	864,000	0.5
20	Utilities, cleaning, security, office supplies (all segments)	18,000,000	3,240,000	Apportioned - residual input; (FRW 3,240,000* 179,080,000)/ 267,080,000	2,172,455	0.5
21	Hotel building renovation (70% hotel / 30% school)	9,000,000	1,620,000	Direct apportionment - 70% to taxable rooms; 30% blocked (exempt school)	1,134,000	0.5
22	Company sedan - Finance Director (55% business)	14,000,000	2,520,000	Blocked - private motor car; input VAT fully disallowed under Rwanda VAT law, therefore business is allowable 2,520,000*55%	1,386,000	0.5
	TOTALS	**24,930,000**		**TOTAL RECOVERABLE INPUT VAT**	**12,666,455**	**5**

NET VAT POSITION - OCTOBER 2024

VAT SUMMARY - OCTOBER 2024	
Total Output VAT	**14,220,000**
Less: Total Recoverable Input VAT	**(12,666,455)**
NET VAT PAYABLE TO RRA	**1,553,545**

The net VAT of FRW 1,553,545 is payable to the RRA and must be remitted by 15 November 2024 (i.e., the 15th day of the month following the tax period). Filing is done via the RRA e-tax portal.

QUESTION 18

<table>
<tr><td colspan="2">Answer</td><td></td></tr>
<tr><td>(a)</td><td>

Taxable income and tax liability under the leasing option:

Particulars	FRW	*Marks*
Taxable income	110,000,000	
Lease payments	(51,500,000)	
Nex Taxable income	**58,500,000**	*½ mark*
Tax liability (28%)	16,380,000	*½ Mark*
		Total (1mark)

Taxable income and tax liability under the purchasing option:

Particulars	FRW	*Marks*
Taxable income	110,000,000	
Depreciation (280,000,000 x 5%)	(14,000,000)	*½ mark*
Investment allowance (280,000,000 x 50%)	(140,000,000)	*½ mark*
Interest expense	(10,000,000)	
Nex Taxable income	(54,000,000)	*1 mark*
Tax liability (28%)	Nil*	*1 mark*
		Total (3mark)

- Under the purchasing option the company has a tax loss that can be carried forward to future years

</td><td>4 marks</td></tr>
<tr><td>(b)</td><td>

Advice on the lower tax liability option:

- Purchasing the equipment is the better option in the first year because it results in no tax liability due to the investment allowance

</td><td>2 marks</td></tr>
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	and depreciation deductions that reduce the taxable income to zero. *(2 Marks)* • Leasing the equipment results in a taxable income of FRW 58,500,000 and a tax liability of FRW16,380,000, which is significantly higher than under the purchasing option. • Therefore, purchasing the equipment saves KAWUNGA Best Ltd FRW16,380,000 in taxes in the first year. However, due to the significant purchase cost, this is likely to stress the cashflow and the business should take weigh the tax against the cashflow impact.	
(C)	**Suggestion on the long-term tax implications:** • KAWUNGA Best Ltd. should also consider the future tax benefits and costs of each option, as the first year is not representative of the entire period of use of the equipment. *(1 Mark)* • Leasing the equipment provides consistent deductions for five years, which may reduce the taxable income and tax liability in the later years when the income may be higher. *(1 Mark)* • Purchasing the equipment offers a one-time significant benefit from the investment allowance in the first year, but lower depreciation deductions in the subsequent years, which may increase the taxable income and tax liability in the later years when the income may be higher. *(1 Mark)* • Additionally, purchasing the equipment involves paying interest expenses on the loan, which may reduce the cash flow and profitability of the company. *(1 Mark)* • Kawunga Best Ltd should consider that purchase will require a huge amount of money to be paid at once, which can affect liquidity. *(1 Mark)* • Leasing will also not give ownership and control of the assets. *(1 Mark)*	4 Marks

SECTION C

QUESTION 19

Marking guide

(a)	**Marks**
Employment Income of Mr Mugisha Received KigoTech Ltd	
Benefit in Cash	FRW
Basic Salary	0.5
Transport Allowance	0.5
Cost of living allowance	0.5
Housing allowance	0.5
Performance bonus	0.5
Total Cash benefit	
Benefit Kind	
Motor Vehicle Allowance (10% of Total cash benefit)	1
Medical contribution to private insurance	0.5
School fees	0.5
Salary to Maid	0.5
Professional Training (Capacity building training)	0.5
Share based award (Less 10% of shareholding)	0.5
Benefit on salary advance	1
Expense claims on client entertainment	0.5
Pension distribution from RSSB	0.5
PAYE (Pay As You Earn)	
0-720,000	0.5
720,001-1,200,000	0.5
1,200,001-2,400,000	0.5
Above 2,400,0001	0.5
Working- Salary advance	
Annual basic salary	
Monthly basic salary	0.5
3 months salary	0.5
Advance loan	0.5
Excess	0.5
Sub Total Marks	**12**
(b)	
Personal Income Tax of Mr. Mugisha for the year ended 31 December 2023	
Description	**FRW**
Employment Income	0.5
Other Taxable Income	
Terminal Benefit (Gross up, WHT was 30%)	0.5

Setting Allowance (Gross up, WHT was 30%)	0.5
Dividend from BK (Gross up, WHT was 15%)	0.5
Income from UK (Gross amount)	0.5
Rental Income	0.5
Interest from EQR (Gross up, WHT was 15%)	0.5
Total Taxable Income	
Tax liability	
Tax liability	
0-720,000	0.5
720,001-1,200,000	0.5
1,200,001-2,400,000	0.5
Above 2,400,0001	0.5
Tax liability	
Less Tax relief	
PAYE	0.5
WHT- Dividend	0.5
WHT-Interest	0.5
Double Taxation Relief (DTR) on UK Income	0
WHT on Terminal Benefit	0.5
WHT on Sitting Allowance	0.5
Sub Total Marks	**8**
Grand Total	**20**

Model answer

(a)		
Employment Income of Mr Mugisha Received KigoTech Ltd		
Benefit in Cash	FRW	FRW
Basic Salary		14,400,000
Transport Allowance		1,140,000
Cost of living allowance		720,000
Housing allowance		180,000
Performance bonus		220,000
Total Cash benefit		**16,660,000**
Benefit Kind		
Motor Vehicle Allowance (10% of Total cash benefit)		1,666,000
Medical contribution to private insurance		660,000
School fees		840,000
Salary to Maid		600,000
Professional Training (Capacity building training)		Exempted
Share based award (Less 10% of shareholding)		Exempted
Benefit on salary advance		27,000
Expense claims on client entertainment		Exempted
Pension distribution from RSSB		Exempted

Total benefit in kind		**3,793,000**
Total Taxable employment income		**20,453,000**
PAYE (Pay As You Earn)	**Rate**	**Tax amount**
0-720,000	0%	-
720,001-1,200,000	10%	48,000
1,200,001-2,400,000	20%	240000
Above 2,400,0001	30%	5,415,900
PAYE		**5,703,900**
Working- Salary advance		
Annual basic salary	14,400,000	
Monthly basic salary	1,200,000	
3 months salary	3,600,000	
Advance loan	4,800,000	
Excess	1,200,000	
Benefit	**27,000**	
(b)		
Personal Income Tax of Mr. Mugisha for the year ended 31 December 2023		
Description	**FRW**	
Employment Income	20,453,000	
Other Taxable Income		
Terminal Benefit (Gross up, WHT was 30%)	857,143	
Setting Allowance (Gross up, WHT was 30%)	214,286	
Dividend from BK (Gross up, WHT was 15%)	200,000	
Income from UK (Gross amount)	4,500,000	
Rental Income	7,200,000	
Interest from EQR (Gross up, WHT was 15%)	120,000	
Total Taxable Income	**33,544,429**	
Tax liability		
Tax liability	**Rate**	**Tax amount**
0-720,000	0%	-
720,001-1,200,000	10%	48,000
1,200,001-2,400,000	20%	240,000
Above 2,400,0001	30%	9,343,329
Tax liability		**9,631,329**
Less Tax relief		
PAYE		- 5,703,900
WHT- Dividend		- 10,000
WHT-Interest		- 18,000
Double Taxation Relief (DTR) on UK Income	Not applicable as Rwanda does not have DTA with UK, unless it was specified by the examiner	0
WHT on Terminal Benefit		- 257,143
WHT on Sitting Allowance		- 64,286
Tax payable		**3,578,000**

QUESTION 20

Marking guide

S/N	Details	Marks
a) - Customs Duty, Excise Duty, VAT, WHT, IDL, QIF & AU Levy on Steel Components		
1	Correct computation of CIF customs value (FOB + freight + insurance = FRW 26,175,000)	1
2	Import duty: 25% × CIF = FRW 6,543,750	1
3	Excise tax base: CIF + import duty = FRW 32,718,750; excise @ 10% = FRW 3,271,875	1
4	VAT base: CIF + duty + excise = FRW 35,990,625; VAT @ 18% = FRW 6,478,313	1
5	Withholding tax: 5% × CIF (FRW 26,175,000) = FRW 1,308,750	1
6	Infrastructure Development Levy: 1.5% × CIF = FRW 392,625	½
7	Quality Inspection Fees: 0.2% × CIF = FRW 52,350	½
8	African Union Import Levy: 0.2% × CIF = FRW 52,350	½
9	Total charges	½
		7
b) - WTO Customs Valuation Methods		
10	Method 2: Transaction value of identical goods (correct label and brief description)	1
11	Method 3: Transaction value of similar goods (correct label and brief description)	1
12	Method 4: Deductive value method (correct label and brief description)	1
		3
c) - VAT Reverse Charge Mechanism - German Engineering Firm		
13	If a Rwandan taxpayer imports a service, he or she should account for **output VAT** under the **VAT reverse charge mechanism**. However, where the imported service is used for taxable business activities and the input VAT is recoverable, the taxpayer may claim the same amount as **input VAT**, thereby offsetting the output VAT.	1
14	Hence, in the case of **RGM**, the reverse charge VAT will be calculated as follows: **FRW 15,000,000 × 18% = FRW 2,700,000**	½

15	Accordingly, **FRW 2,700,000** will be accounted for as both **output VAT** and **input VAT**, subject to the conditions for input VAT recovery being met, because the service from German engineering consultancy no other firm in Rwanda can provide such service	½
		2
d) - Foreign Tax Credits		
16	Mauritius royalties - gross-up: FRW 36,000,000 ÷ 0.90 = FRW 40,000,000; Hence foreign tax credit= (FRW 40,000,00*10%) FRW 4,000,000	1
17	South Africa profits - no gross-up needed; foreign tax = (FRW 80,000,000*20%)=FRW 16,000,000; Rwanda CIT cap = (FRW 80,000,000*28%)= FRW 22,400,000; credit (whichever is lower) = FRW 16,000,000	2
18	Barbados dividends - gross-up: FRW 18,500,000 ÷ 0.925 = FRW 20,000,000; foreign tax credit = (20,000,000*7.5%)=FRW 1,500,000	1
		4
Part (e) - SA Business Profits - No Treaty vs. Treaty Position		
22	No-treaty position: Rwanda taxes worldwide income at 28%; SA also charges 20%; risk of full double taxation up to FRW 40,000,000 (48% effective rate)	1
23	No-treaty position: any unilateral relief is discretionary/uncertain under domestic law	½
24	Under DTA: SA business profits taxable in South Africa as source state (PE / construction PE established)	1
25	Under DTA: Rwanda grants mandatory credit of FRW 16,000,000; net Rwandan CIT = FRW 8,000,000; total burden = FRW 22,400,000 (28% effective rate)	1
26	Conclusion: DTA eliminates double taxation and reduces effective rate from 48% to 28%	½
		4
	Grand Total	**20**

Model Answer

a) Import Duties & Levies on Steel Components from China

Establish the Customs Value (CIF basis)

Under the WTO Customs Valuation Agreement, the transaction value is adjusted to a CIF (Cost, Insurance & Freight) basis for import duty purposes.

Component	**FRW**
FOB Invoice Price (paid to Chinese supplier)	23,700,000
Add: International Freight Charges	1,750,000
Add: Marine Insurance Premium	725,000
Customs Value (CIF)	**26,175,000**

Import Duty

Import duty is levied at 25% on the CIF customs value.

Item	**Rate**	**FRW**
Customs Value (CIF)		26,175,000
Import Duty @ 25%	**25%**	**6,543,750**

Excise Tax

Excise tax at 10% is applied on the sum of the CIF value plus import duty

Item	**Rate**	**FRW**
CIF Value		26,175,000
Add: Import Duty		6,543,750
Excise Tax Base		32,718,750
Excise Tax @ 10%	**10%**	**3,271,875**

Value Added Tax (VAT)

VAT at 18% is levied on the aggregate of the CIF value, import duty, and excise tax

Item	**Rate**	**FRW**
CIF Value		26,175,000
Add: Import Duty		6,543,750
Add: Excise Tax		3,271,875
VAT Base		35,990,625
VAT @ 18%	**18%**	**6,478,312.5**

Withholding Tax (WHT)

Withholding tax at 5% applies to payments made to imports. The WHT base is the FOB invoice value.

Item	Rate	FRW
FOB Invoice Price (payment to foreign supplier)		23,700,000
Withholding Tax @ 5%	**5%**	**1,185,000**

Infrastructure Development Levy (IDL), Quality Inspection Fees (QIF) & African Union Import Levy (AUIL)

These three charges are all computed on the CIF customs value.

Charge	Rate	FRW
Infrastructure Development Levy (IDL)	1.5%	392,625
Quality Inspection Fees (QIF)	0.2%	52,350
African Union Import Levy (AUIL)	0.2%	52,350

All Import Charges

Tax / Levy	Base (FRW)	Amount (FRW)
Import Duty (25%)	26,175,000	6,543,750
Excise Tax (10%)	32,718,750	3,271,875
Value Added Tax / VAT (18%)	35,990,625	6,478,312.5
Withholding Tax (15%)	23,700,000	3,555,000
Infrastructure Development Levy (1.5%)	26,175,000	392,625
Quality Inspection Fees (0.2%)	26,175,000	52,350
African Union Import Levy (0.2%)	26,175,000	52,350
TOTAL ALL CHARGES		**20,346,262.5**

b) WTO Customs Valuation Methods

Method	Description
Transaction Value of Identical Goods	The customs value is based on the transaction value of identical goods sold for export to the same country of importation at or about the same time. 'Identical goods' means goods that are the same in all respects, including physical characteristics, quality and reputation.
Transaction Value of Similar Goods	Where no identical goods are available, the value is based on the transaction value of similar goods (goods that closely

Method	Description
	resemble the imported goods in terms of composition and characteristics and are commercially interchangeable).
Deductive Value Method	The customs value is derived by working backwards from the selling price of the imported (or identical/similar) goods in the domestic market of the importing country, deducting post-importation costs (commissions, profit margins, duties and taxes, transport costs, etc.).

c) VAT Reverse Charge Mechanism

Under Rwandan VAT law, where a VAT-registered resident person acquires services from a non-resident supplier who is not registered for VAT in Rwanda, the recipient is required to self-account for VAT on those services under the reverse charge mechanism. This prevents a competitive distortion between resident and non-resident service providers.

Application to RGM

The German engineering firm is a non-resident and is not registered for Rwandan VAT. RGM, as a VAT-registered resident, must therefore:

Step	Action	Detail
1	Account for Output VAT	RGM must treat the FRW 15,000,000 consultancy fee as if it had charged itself VAT. Output VAT = FRW 15,000,000 × 18% = FRW 2,700,000.
2	Declare in VAT Return	The FRW 2,700,000 is declared as output tax in RGM's VAT return for the period in which the supply is made.
3	Claim Input Tax Credit	Simultaneously, because the services are acquired for RGM's taxable manufacturing activities, the same FRW 2,700,000 is recoverable as input tax in the same return, resulting in a net VAT cost of nil.
4	Withholding Tax	Separately, RGM must withhold tax at 15% on the gross payment (FRW 15,000,000 × 15% = FRW 2,250,000) and remit it to RRA, given the German firm has no permanent establishment in Rwanda.

d) Foreign Tax Credits

The foreign tax credit is limited to the lesser of the foreign tax actually paid and the Rwandan corporate income tax that would be payable on that same income. The standard Rwandan CIT rate is 28%.

1. Royalty Income - Mauritius (10% WHT)

Item	FRW
Net royalty received (after 10% Mauritian WHT)	36,000,000
Gross-up: Net ÷ (1 − 10%)	

Item	FRW
Gross royalty income	40,000,000
Foreign tax paid (10% × FRW 40,000,000)	4,000,000
Rwandan CIT on gross royalty (28% × FRW 40,000,000)	11,200,000
Foreign Tax Credit = lower of FRW 4,000,000 & FRW 11,200,000	**4,000,000**

2. Business Profits

Item	FRW
Gross business profits (given)	80,000,000
South African income tax paid (20%)	16,000,000
Rwandan CIT on same profits (28%)	22,400,000
Foreign Tax Credit = lower of FRW 16,000,000 & FRW 22,400,000	**16,000,000**

3. Dividend Income

Item	FRW
Net dividend received (after 7.5% Barbados WHT)	18,500,000
Gross-up: Net ÷ (1 − 7.5%) = FRW 18,500,000 ÷ 0.925	
Gross dividend income	20,000,000
Foreign tax paid (7.5% × FRW 20,000,000)	1,500,000
Rwandan CIT on gross dividend (28% × FRW 20,000,000)	5,600,000
Foreign Tax Credit = lower of FRW 1,500,000 & FRW 5,600,000	**1,500,000**

Summary of Foreign Tax Credits

Income Stream	Gross Income (FRW)	Foreign Tax Paid (FRW)	Rwanda CIT Cap (FRW)	Credit Allowed (FRW)
Mauritian Royalties	40,000,000	4,000,000	11,200,000	4,000,000
SA Business Profits	80,000,000	16,000,000	22,400,000	16,000,000
Barbados Dividends	20,000,000	1,500,000	5,600,000	1,500,000
TOTAL				**21,500,000**

e) South African Business Profits

Position Without a Tax Treaty

In the absence of a double taxation agreement between Rwanda and South Africa, Rwanda would tax RGM's worldwide income under its domestic legislation. The South African business profits of FRW 80,000,000 would be included in RGM's chargeable income in Rwanda and taxed at the 28% corporate income tax rate:

Item	FRW
SA business profits	80,000,000
Rwandan CIT @ 28%	22,400,000
South African CIT already paid @ 20%	16,000,000
Without DTA - unilateral relief available?	Possibly limited
Effective double tax burden (if no relief)	**38,400,000**

Without a DTA, Rwanda's domestic law may provide a unilateral foreign tax credit. However, this is discretionary and limited; there is no guaranteed mechanism to prevent double taxation. The total tax burden could be as high as FRW 38,400,000 (FRW 16,000,000 SA tax + FRW 22,400,000 Rwandan tax on the same profits), representing an effective rate of 48%.

Position Under the Existing DTA (Rwanda–South Africa)

Under the DTA, the profits from the South African infrastructure project would generally be taxable only in South Africa (the source state) because RGM executed a project there - constituting either a permanent establishment (PE) or a specific project PE under the treaty's construction article (typically 6–12 months threshold).

Under the DTA, Rwanda is obliged to grant a credit for South African tax actually paid (FRW 16,000,000) against the Rwandan CIT liability of FRW 22,400,000. The net Rwandan tax payable is therefore FRW 8,000,000, bringing the total tax burden to FRW 22,400,000 - equal to 28% of gross profits - which corresponds to the higher of the two jurisdictions' rates, as intended by the treaty.

Conclusion: The DTA provides certainty, eliminates double taxation, and reduces the total tax burden from a potential 48% to an effective 28%, with Rwanda granting a mandatory credit of FRW 16,000,000 for South African tax paid.

END OF MARKING GUIDE AND MODEL ANSWERS